

KTRS NEWSLETTER

TEACHERS' RETIREMENT SYSTEM
OF THE STATE OF KENTUCKY

RETIRED MEMBER EDITION

April/May 2004



2004 LEGISLATIVE SESSION

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The 2004 Regular Session of the General Assembly adjourned on April 13, 2004. During the Session, important retirement system legislation, such as KTRS's House Bill 434, was enacted into law. A summary of the highlights of the 2004 legislation is set forth below. Unless noted otherwise, these legislative changes become effective on July 1, 2004.

Change in Funding Formula for Medical Insurance Fund

For the retirement system and its members, the single most important achievement of the 2004 General Session was the enactment of House Bill 434 with its change in the funding formula for the medical insurance fund. This critical piece of legislation will permit KTRS to ask the Governor and General Assembly each budget biennium for an additional state contribution necessary to continue medical coverage at current levels. The medical insurance program is a "pay-as-you-go" plan with contributions from members matched by the state being the basic formula for funding this important benefit. The shortcoming of this formula was becoming clearly evident as the ratio of active to retired members began to dramatically shrink with increasing retirements in the "Baby Boomer" generation. Soaring medical costs, particularly prescription drug costs, are another reason that the current funding formula is no longer adequate to properly maintain the level of medical insurance currently being provided to

retired members. With the enactment of House Bill 434, KTRS will now have the statutory authority it needs to add the base funding formula to fund medical benefits for retirees when making budget requests each biennium. It will still be up to the Governor and the General Assembly to approve the additional necessary funding in the budget each biennium. It is important to note that the medical benefit for retired teachers is not extraordinary, it is the same benefit promised other public retirees such as school bus drivers, school cafeteria workers, policemen, firemen, state employees, and legislators.

Cost of Living Adjustments

In addition to the permanent 1.5% Cost of Living Adjustment (COLA), KTRS requests funding in the budget for "ad hoc" COLAs to help members' retirement allowances keep pace with inflation. For the coming biennium, KTRS requested ad hoc COLAs of 0.8% for fiscal year 2004-2005, and 0.7% for fiscal year 2005-2006. If they had been approved by the Legislature, these

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ROBERT M. CONLEY

Elected to Fill Board Vacancy

The Board of Trustees recently elected Robert M. Conley of Paintsville to fill the lay trustee position on the KTRS Board that became vacant due to the retirement of Earle V. Powell. The Board selected Mr. Conley from among five nominees for the position. The appointment is for the remainder of Mr. Powell's term which expires June 30, 2006. Mr. Conley was first elected to the Board in 1986 and brings a variety of experience in investment and insurance services to the Board of Trustees.

Upcoming KTRS Board of Trustees Election

The Teachers' Retirement System is governed by a nine member Board of Trustees. Two members are ex-officio members, the Chief State School Officer and the State Treasurer. The remaining seven trustees are elected by the retired and active membership. Elections are held in May of each year to fill either one or two positions on the Board. Positions are held for four year terms and the elections are staggered. This May the membership will be electing an active teacher trustee.

The candidates for the active teacher position are Steve Hoskins, the incumbent from Wickliffe, and Zella Wells, from Paintsville.

By this time, each retired and active KTRS member should have received a ballot with

information about the candidates. The ballot itself has been simplified to save costs. Retired members will receive a yellow ballot and active members will receive a blue ballot. Just select your candidates, tear along the perforation, and drop it in the mail. Postage is prepaid. You may return your ballot any time during May, but no later than May 31, 2004. The Chief State School Officer is responsible for counting the ballots.

All members are urged to review the qualifications of each candidate and cast their ballot for the candidate in each category that they feel has the best qualifications to be an effective member of the Board of Trustees. The results of the election will be announced in the next publication of the 2004 KTRS newsletter.

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ad hoc COLAs, added to the permanent 1.5% COLA, would have provided members with a total COLA of 2.3% for fiscal year 2004-2005, and 2.2% for fiscal year 2005-2006. As you are probably aware, the General Assembly was unable to agree on a budget during the 2004 General Session even though both the House and the Senate versions contained funding for ad hoc COLAs. As a result, there is currently no statutory funding or authority to provide these COLAs.

It is hoped that a budget containing ad hoc COLAs can be adopted by a Special Session of the General Assembly prior to the July 1, 2004 date

that retiree COLAs are applied. In the event no budget is adopted prior to July 2004 in Special Session, then it is hoped that the Governor's spending plan would then provide the necessary funding for the ad hoc COLAs. KTRS will continue to monitor this issue closely and urge funding for the ad hoc COLAs with both the Governor and the Legislature. Without proper authority, either through a passed budget or inclusion in the Governor's spending plan, the COLAs awarded in July 2004 will be the base COLA of 1.5%.

HOUSE BILL 434 continued on page 3 ...

Modified Critical Shortage Program

The budget bill enacted during the 2003 General Session provided for a temporary retire-and-return-to-work program similar to the former critical shortage program. The budget bill's version of the critical shortage program is scheduled to sunset effective June 30, 2005. House Bill 434 replaces the budget bill program with a return-to-work program that is similar, except that the local school superintendent will determine when a critical shortage exists and whether there are any other qualified applicants for the job. Furthermore, unlike the budget bill's version of the critical shortage program, the replacement program does not contain any sunset date upon which the program will automatically expire. Retired members returning to work under the critical shortage program contribute to the retirement system and earn post-retirement service credit that, if they vest, will pay them a second retirement allowance.

Alternative Break-in-Service Requirements

Retired members who wish to return to work in a KTRS-covered position are required to have separated from employment for twelve months if returning to work on a full-time basis for the same employer, and for three months if returning to work full-time for a different employer or part-time for the same employer. House Bill 434 provides alternative breaks-in-service under which a retired member must have a minimum two-month break in service plus the member forfeiting his/her retirement allowance for a period that would equal, when added to the two-month break in service, the number of months currently required for breaks-in-service. For example, a retired member would be able to return to work full-time for the same employer after a break of two months followed by the member forfeiting his/her retirement allowance for the ten months next succeeding the two-month break. Or, that same member could experience a six-month break in service followed by forfeiting the retirement allowance for the next succeeding six months. A retired member returning to work for the same employer on a part-time basis or a different employer on a full-time basis could do so after a break of two months followed by forfeiting the

member's retirement allowance for the next succeeding month.

Tax-Deferred Installment Payments

House Bill 434 provides the necessary statutory authority to permit KTRS to ask the Internal Revenue Service to allow members to purchase service credit by installment payments on a tax-deferred basis. Currently, only lump sum purchases of service credit may be made on a tax-deferred basis. With this necessary statutory authority, KTRS will ask the IRS for a private letter ruling approving tax-deferred installment payments. Subject to approval by the IRS, members will be able to purchase service credit on an installment basis through payroll deductions that are made before federal and state taxes are applied.

Out-of-State Teaching Service

Almost all service credit purchases must be made at full actuarial cost. Out-of-state teaching service is an exception. The current cost formula can result in widely varying costs for members purchasing this service depending on several variables. The issue of service credit purchases at less than full actuarial cost was recently a specific concern of the IRS when the retirement system was attempting to obtain a private letter ruling authorizing tax-deferred transfers from Kentucky Public Employees Deferred Compensation Authority to KTRS. The IRS did not approve tax-deferred transfers for purchases of service credit at less than full actuarial cost. Accordingly, members may not use tax-deferred funds to purchase out-of-state teaching service. Given the inequity of the current cost formula and with due regard to the concerns of the IRS, out-of-state teaching service will, effective July 1, 2005, be set at full actuarial cost as are most other types of service credit purchases. If you have out-of-state teaching service you may wish to contact the retirement system to obtain cost estimates under the current formula as well as under the full actuarial cost formula as the change would make the cost of out-of-state teaching service more expensive for some and less expensive for others.

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On and after July 1, 2005, out-of-state teaching service will no longer be purchasable under the current cost formula.

One-time Opportunity to Change from an Optional Retirement Plan to KTRS

University and community college employees are provided a one-time opportunity during their lifetimes to change from an optional retirement plan to KTRS as long as they are otherwise eligible to participate in KTRS.

Miscellaneous Provisions

There are several miscellaneous provisions in House Bill 434 in addition to those discussed above. For example, purchases of non-current leaves of absence are expanded to permit purchases for leaves of absence taken not only for reasons of personal health, but also the health of a child, spouse or parent as described in the Family Medical Leave Act. Another provision will increase some retired members' Daily Wage Thresholds by applying Cost of Living Adjustments to their last annual compensation whenever it was earned, not just from their retirement date forward.

Purchases of Federal Head Start Service

The cost of federal Head Start service will change from full actuarial cost to the cost charged members to purchase out-of-state teaching service. This provision will become effective July 13, 2004. For some members, this will make federal Head Start service purchasable at a lower cost under the current out-of-state teaching service formula (for some this could increase the cost of federal Head Start service). Accordingly, it is very important for members who are considering purchasing federal Head Start service to contact the retirement system and compare costs. It is important to note, however, that out-of-state teaching service, and, correspondingly, federal Head Start service, will change to full actuarial cost on July 1, 2005. Therefore, if you have federal Head Start service you may wish to contact the retirement system to obtain an estimate of the cost of purchasing this service under the current out-of-state teaching formula that will be available only during a limited

time from approximately July 13, 2004 through June 30, 2005. It is also important to remember that tax-deferred monies cannot be used to purchase service credit purchasable at less than full actuarial cost. This can be an important factor in determining when you may want to purchase your federal Head Start service.

Service Credit for Made Up Instructional Time

New legislation provides that school districts that add days or instructional time to make up for school days missed for reasons of emergency shall count those days or time toward the required 185-day contract and those additional days or time shall also be accredited with service credit for retirement purposes. Such plans to make up missed days must meet all state and local school requirements. This legislation became effective on April 7, 2004.

Notice

This newsletter provides only a summary of some of the more significant provisions enacted during the 2004 General Session and is intended for general informational purposes only. This summary does not contain all of the terms and detail of the actual legislation enacted by the General Assembly. Final, official codification of this newly enacted legislation is still several months away.

*****ATTENTION*****

At the time of the printing of this newsletter, the General Assembly had not agreed on a budget for the 2004-06 biennium. The adoption of the budget, whether by Special Session or Regular Session, could change the current status of legislation as set forth in this newsletter. Any material changes affecting the retirement system as a result of the adoption of a budget will be reported in subsequent newsletters.

ATTENTION

Do You Have Out-of -State Teaching or Federal Head Start Service?

Out - o f - s t a t e teaching service costs will change to full actuarial cost effective July 1, 2005. If you have out-of-state teaching service, you may wish to contact the retirement system to compare the cost under the current formula as compared with the full actuarial cost formula. The cost will increase for some members when it changes to full actuarial cost on July 1, 2005. Federal Head Start service will be purchasable only under the current out-of-state teaching service formula from July 13, 2004 through June 30, 2005. For some members, the cost will be less under this formula than under the full actuarial cost formula (for some members it will be more). After June 30, 2005, federal Head Start service will be purchasable only at full actuarial cost. Remember, tax-deferred monies cannot be used to purchase service credit that is purchasable at less than full actuarial cost. This could be an important factor in determining when you want to purchase your out-of-state teaching or federal Head Start service. Contact KTRS for details.

Medicare Drug Discount Cards

The Medicare Prescription Drug Bill signed in December offers interim drug discount cards, beginning June 1, 2004 until the Medicare Prescription Drug Program commences in January 2006. These discount cards are mainly aimed at assisting Medicare beneficiaries who currently have no other prescription drug coverage. KTRS retirees age 65 and over who are currently enrolled in KTRS' Medicare Eligible Health Plan will not benefit from the interim drug discount cards based upon the prescription medications currently covered by the KTRS Plan. Agency sponsored drug coverage (like KTRS' current plan) is expected to provide lower cost prescription drugs to retirees than the Medicare discount cards promise. It is

also highly unlikely that drug manufacturers and retail pharmacies will allow retirees to combine discounts provided under the Medicare card with any agency-sponsored group health coverage. If you need additional information it may be obtained at the Medicare website on www.medicare.gov or by calling 1-800-MEDICARE or (1-800-633-4227).

KTRS Medical Plan for Age 65 & Over Medicare Primary

This is to inform retirees and eligible spouses, who are age 65 or older and not already enrolled in the KTRS Medicare Eligible Health Plan (MEHP) administered by Aetna and Medco Health Solutions, that June 1, 2004 begins Open Enrollment. If you are not currently enrolled in the MEHP and wish to have coverage effective July 1, 2004, you must contact KTRS for an enrollment form and return the completed form to this office by June 30, 2004. During Open Enrollment you can enroll without providing proof of a qualifying event. To enroll outside of open enrollment you must show evidence of a qualifying event. **If you are currently enrolled in the KTRS MEHP, you do not have to do anything.**

For the calendar year 2004, the monthly premium for the MEHP is \$274.00 per person. The retiree's premium may be reduced by the retiree supplement payment shown on the schedule below. However, KTRS does not pay any supplement toward the cost of the eligible spouse's coverage.

Years of KTRS Service	Age 65 & Over KTRS Payment
20 & Above	\$274.00
15-19.99	\$246.60
10-14.99	\$219.20
5-9.99	\$191.80



Coming in the next newsletter . . .

THE POSITIVE IMPACT OF KTRS ON KENTUCKY'S ECONOMY

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